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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000602

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SUBJECT: AZERBAIJAN: FINANCE MINISTER REPLACED BY OIL FUND DIRECTOR AND CLOSE PRESIDENTIAL ADVISOR

Classified By: AMBASSADOR RENO L. HARNISH III PER 1.4 (B,D).

¶1. (C) SUMMARY: Azerbaijani President Ilham Aliyev dismissed April 18 Finance Minister Avaz Alakbarov and appointed Oil Fund Executive Director Samir Sharifov as the new Finance Minister. A successor for Sharifov at the critically important Oil Fund was not announced, leaving a key institution without leadership. The removal of Alakbarov and naming of Sharifov are one of the final pieces of the reshuffling of the GOAJ's key economic decision-makers that brought young, close advisors of the President to power. The sole remaining outsider is the Chairman of the National Bank.

The full impact of the changes will not be clear until the new Oil Fund director is named. Some observers speculate that Sharifov will take the Oil Fund responsibilities with him to the Ministry of Finance. END SUMMARY.

FINANCE MINISTER REPLACED BY CLOSE PRESIDENTAL ADVISOR

¶2. (C) Official Government of Azerbaijan television announced last night the removal of Finance Minister Avaz Alakbarov and the appointment of Samir Sharifov, Executive Director of the Oil Fund, as new Finance Minister. (Sharifov's bio will be sent septel.) According to a Deputy Finance Minister present with Alakbarov on the evening of April 18, the minister heard the news of his dismissal from the television during a dinner with IMF representatives. The minister was visibly shocked. He reportedly excused himself from the dinner, explaining that he had to empty his desk at the ministry. (President Aliyev told the Ambassador April 16 that he planned cabinet changes in the coming weeks. The delegation list for Aliyev's upcoming trip to Washington may indicate further changes; both Sharifov and International Bank of Azerbaijan Chairman Jahangir Hajiyev are included on the list, while Alakbarov had been noticeably absent.)

¶3. (C) A contact at the Oil Fund told EconOff that Sharifov had been expecting to be named to a ministry position for the past several weeks, though not necessarily the Finance Ministry. The contact added that he was unaware of Sharifov's possible replacement at the Oil Fund. Sharifov has also been an active negotiator with Kazakhstan on the long-awaited Intergovernmental Agreement (IGA) to bring Kazakh crude into the Baku-Tbilisi-Ceyhan pipeline. It is unclear how Sharifov's role in the negotiations will change. Sharifov speaks excellent English and is extremely comfortable dealing with Western interlocutors. He also has excellent managerial skills. For these reasons, he was a valuable GOAJ spokesperson to the international community and IFIs.

OIL FUND LEADERSHIP UNKNOWN

¶4. (C) Sharifov's appointment as Finance Minister creates a critical vacancy at the Oil Fund. On more than one occasion, international rating agencies have noted to EconOff the critical importance of retaining Sharifov as Executive Director of the Oil Fund since it gave them confidence that a capable manager and leader was in charge of the country's oil wealth. Most economic and financial observers also agree that Sharifov's leadership and close relationship to President Aliyev have made the Oil Fund, and its USD 1.5 billion in assets (NOTE: Oil Fund assets are projected to reach between USD 60 and 120 billion by 2016), a transparent institution free of typical corruption and bureaucracy. One observer noted, however, that Sharifov's skills were being wasted at the Oil Fund because the amount of active hand-on management was limited following the intensive work required to set up the Fund.

¶5. (C) Since Sharifov handled daily Oil Fund operations and public relations personally, there is no obvious choice of successor from within the institution. While the Minister of Finance already plays an active role of the GOAJ Oil Fund advisory group, the GOAJ may attempt to have the Ministry of Finance oversee more closely the Oil Fund. One IFI observer noted that National Bank General Director Shamar Movsumuv may be a possible candidate to replace Sharifov. Movsumuv, a close Embassy contact, speaks excellent English, has studied at Harvard University, and is held in high esteem by the international donor community.

GOAJ'S NEW ECONOMIC TEAM

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¶6. (C) The dismissal of Alakbarov is one of the final steps in the GOAJ's reshuffle of the principal economic decision-makers. The current key economic ministers, Economic Development Minister Babayev and Finance Minister Sharifov, are now closely aligned with President Aliyev. The remaining "outsider" is National Bank of Azerbaijan Chairman Elman Rustamov, who was appointed in 2005 for another five-year term. In October, the GOAJ removed Economic Development Farhad Aliyev and replaced him with Heydar Babayev, a close confidant of President Aliyev.

¶7. (C) While the removal of Alakbarov came as an unexpected surprise, it was widely known that he was a skilled technocrat who occasionally clashed with other ministers, such as Babayev, over GOAJ's economic policy. At a recent budget-planning seminar organized by the U.S. Embassy and attended by Babayev, Alakbarov and Rustamov, the differences of opinion among the three officials were clear. Babayev openly disagreed and rebutted both statements and proposals made by Alakbarov and Rustamov. In recent meetings, Sharifov has made comments regarding GOAJ spending and economic goals that are extremely similar to Babayev's. Both Babayev and Sharifov support increasing government expenditures to accelerate economic development. Based on the closeness of Babayev and Sharifov to President Aliyev, one can assume that the President is leading this spend-thrift economic policy.

¶8. (C) The international donor community and IFIs have always viewed Alakbarov and Rustamov as trustworthy interlocutors working to maintain economic stability and move the country towards sustainable economic and financial development. In preparation of the 2006 State Budget, however, both officials were marginalized and their views on potential economic problems ignored. The removal of Alakbarov has most likely been planned for several weeks and, despite his five-year appointment, Rustamov is most likely the next government official that will be removed.

¶9. (C) While there would be considerable conflict of interest in transferring oversight and management of the Oil Fund to the Ministry of Finance, it would enable Sharifov to maintain control over a key institution. The local IMF resident representative told EconOff that it would not be inconceivable to have such an arrangement and that it may maintain important continuity and market confidence.

COMMENT

¶10. (C) The replacement of Alakbarov, appointed in 1999 by former President Heydar Aliyev, with Sharifov, a personal friend of current President Ilham Aliyev, is the latest in a not-so-subtle shift of power away from old-guard, clan-based allies of the former president. Aliyev clearly values the advice of close friends and allies over those of his father's cabinet and, as we have remarked before, is steadily changing over the government, minister by minister. Whether these allies and friends will turn out to be the true reformers we hope for remains to be seen. What is clear is that the changes are an overt attempt to put in place suave interlocutors, mostly English-speaking, and comfortable with Western colleagues -- much like Aliyev himself. He is also building a team whose loyalty to him is not in question, unlike many members of the Old Guard. We predict, as we have before, that this trend will continue, in a timing and methodology known only to the President.

HARNISH